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RICHARD A. DROM

July 24, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
Room 222, 1919 M Street, N.W.
MS 1170
Washington, D.C. 20554

RE: Implementation of Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98

Dear Mr. Caton:

The Iowa Utilities Board ("IUB") requests permission to file the enclosed addendum to the supplemental comments that were filed in the subject proceeding on July 18, 1996. An original and twelve copies of the "Addendum to the Supplemental Comments of the Iowa Utilities Board" are enclosed; two copies are annotated as "Extra Public Copy."

This filing is subject to disclosure and the IUB requests that it be included in the public record pursuant to the Federal Communication Commission's *ex parte* communication procedures, 47 C.F.R. §1.1200, *et seq*.

Sincerely,

Richard A. Drom
Counsel for the Iowa Utilities Board

cc: International Transcription Service
Common Carrier Bureau
Iowa Congressional Delegation
Phil Smith

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C 20554

In the Matter of	)	
	)	
Implementation of the Local Competition Provisions of the Telecommunications Act of 1996	)	CC Docket No. 96-98
	)	
	)	

ADDENDUM TO THE SUPPLEMENTAL COMMENTS OF THE IOWA UTILITIES BOARD

On July 18, 1996, the Iowa Utilities Board ("IUB") filed Supplemental Comments in the captioned proceeding recommending that the Federal Communications Commission ("FCC") recognize that Total Service Long Run Incremental Costs ("TSLRIC") should be broadly defined based upon a **least cost** analysis, instead of narrowly focusing on **forward looking** economic costs. On pages 2-3 of the Supplemental Comments, the IUB provided an example of illogical consequences that could result from a slavish adherence to a forward looking TSLRIC analysis, rather than one premised upon a least cost analysis. This example concerned the provision of unbundled local loop service in Iowa in Docket No. RPU-95-10 ("LIS-Link") by U S West Communications, Inc. ("U S West").

On July 22, 1996, U S West filed a compliance tariff at the IUB, Docket No. TF-96-244, and made specific information concerning LIS-Link service publicly available.

To assist the FCC in better understanding the LIS-Link example and how it demonstrates the weaknesses associated with a solely forward looking analysis, the IUB presents the following:

<u>"Least Cost" is Preferable to a "Forward Looking" Analysis</u>

As discussed in the Supplemental Comments, the IUB recently compared a forward looking investment to an embedded investment analysis in determining the proper least cost rates for LIS-Link service in Iowa by U S West.[1] Based upon the IUB's analysis, LIS-Link service should be provided by U S West using primarily an **embedded plant** analysis at a rate of **$9.44** per month.[2] Under this analysis, the price of LIS-Link service for

U S West was based upon inputs and outputs at least cost.

In contrast, if the costs for this service had been based solely upon **forward looking** investment, the IUB calculated that the rates for this service would have been well over **$13.35** per month, an increase of about $4.00 per month. Such an analysis would illogically imply that, in the long-run, U S West, would change all levels of inputs and outputs, such that the inputs and outputs can be produced at **highest cost**. This assumption obviously makes no sense for unbundled local loop service and would make

[1]The rates set by the IUB only reflect the intra-state costs of the local loop.

[2]<u>See</u>, U S West Iowa Tariff No. 4, Section 16.7.3, Original Page 17, in Docket No. TF-96-244.

no sense for the design of proper interconnection rates.

Although the LIS-Link proceeding is merely one example of comparing a least cost to a forward looking methodology, the IUB strongly believes that a similar result would occur in other low cost states.

CONCLUSION

If the FCC's final rules narrowly define TSLRIC to require the use of forward looking investment, rather than by providing flexibility in designing these rates, interconnection rates in Iowa: (i) will be unnecessarily high; (ii) will not achieve the "least cost" goals of the 1996 Act; and (iii) will not create an incentive for the LEC to provide interconnection services using the least cost technology.

Therefore, the IUB respectfully recommends that if the FCC determines that prescriptive federal rules regarding the TSLRIC floor rate are required, a flexible definition[3] for TSLRIC be utilized. At a minimum, the IUB urges that the FCC rules

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[3]E.g., *Floor rate* to be set based on Total Service Long Run Incremental Costs ("TSLRIC"). The key element is the use of long-run economic costs; the long run implying a period of time sufficient to change all levels of inputs and outputs, such that the inputs and outputs can be produced at least cost. TSLRIC includes cost of capital which equates to a "reasonable profit."

include a footnote commenting with favor upon the IUB's use of a U S West produced cost study showing lower costs than U S West's forward looking study.

Respectfully submitted,

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